

**OFFICE OF THE INSPECTOR GENERAL  
DEPARTMENT OF DEFENSE**

**SUMMARY OF  
REPORTS ISSUED AND  
PARTICIPATION ON MANAGEMENT ADVISORY TEAMS  
AND SPECIAL AUDIT/EVALUATION EFFORTS**

**JULY, AUGUST, AND SEPTEMBER 2001**



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## PART I

### REPORT SUMMARIES

<b><i>ACQUISITION PROGRAM</i></b>
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REPORT NO. D-2001-164. Implementation of a Cost-Accounting System for Visibility of Weapon Systems Life-Cycle Costs. The primary objective was to evaluate implementation of a cost-accounting process for weapon systems. Specifically, we determined whether DoD had defined requirements, established an implementation plan, and begun implementing a cost-accounting system. Additionally, we determined whether the planned accounting system satisfies the requirement in the Statement of Federal Financial Accounting Standards No. 4, "Managerial Cost Accounting Concepts and Standards for the Federal Government," for DoD to accumulate and report the cost of its activities on a regular basis for management information purposes.

Although the Secretary of Defense reported to the Vice President, on August 8, 2000, that DoD was implementing plans for a cost-accounting process for weapon systems, DoD did not establish a standardized cost-accounting system to control and reduce weapon system life-cycle costs and to make management decisions, as described in DoD Acquisition Reform Goal 10 and in the Statement of Federal Financial Accounting Standards No. 4. As a result, DoD does not have a cost-accounting process for weapon system life-cycle costs that: delivers timely, integrated data on total weapon-system costs for management purposes; provides a basis for estimating costs of future systems and a tool for life-cycle cost management; and enables management to include weapon-system life-cycle costs in financial statements.

REPORT NO. D-2001-168. Acquisition Management of the Global Transportation Network. This report is one in a series addressing DoD acquisition management of information technology systems. The overall objective was to evaluate the acquisition management of the Global Transportation Network. Specifically, the audit determined whether the system was being cost-effectively acquired, monitored, tested, and prepared for deployment and system life-cycle support in accordance with DoD Directive 5000.1, "Defense Acquisition," and DoD Directive 5200.28, "Security Requirements for Automated Information Systems."

The U.S. Transportation Command cost-effectively acquired, monitored, tested, and prepared the Global Transportation Network for deployment and system life-cycle support in compliance with OMB and DoD guidance. It was able to obtain an information technology system that augmented its mission-essential and mission-critical business processes as well as the needs of its customers within cost, schedule, and performance baselines.

REPORT NO. D-2001-176. Survey of Acquisition Manager Experience Using the DoD Joint Technical Architecture in the Acquisition Process. This report is the third and final in a series and discusses the use of an open systems approach in the acquisition process for weapon systems. The primary objectives were to evaluate DoD acquisition manager awareness and enforcement of requirements for using applicable DoD Joint Technical Architecture (JTA) standards in the design of weapon systems, to identify problems of program managers using JTA, and to identify opportunities to improve the effectiveness and efficiency of JTA implementation as a tool to help DoD achieve systems interoperability requirements.

Nearly all acquisition managers (Component Acquisition Executives (CAEs), Program Executive Officers (PEOs), and acquisition program managers) indicated awareness of the requirement for complying with JTA. All CAEs and PEOs indicated awareness of DoD Component JTA implementation plans and 76 percent of responding program managers were aware of JTA implementation plans. Program manager responses were largely positive concerning experiences to implement JTA, but the responses also showed opportunities for improvement. Specifically, of 81 responses from program managers: 80 percent indicated that the JTA standards met established quality criteria; 81 percent indicated that the JTA standards were at the proper level in the JTA hierarchical structure; 22 percent stated that applicable JTA standards were easily identified and extracted, while 68 percent cited moderate effort and 10 percent cited difficulty; 78 percent indicated that JTA guidance was clear on the differences in program office use of the JTA standards designated as mandatory and those standards designated as emerging; 62 percent stated that JTA documentation provided clear guidance for determining applicability of standards; and 59 percent indicated that JTA requirements were included in at least one acquisition planning document and 47 percent indicated JTA requirements were included in at least one contract related document.

Although nearly all responding CAEs and PEOs indicated that reviews were made of program office compliance with JTA, program manager responses indicated that those compliance reviews only moderately improved the rate of program manager inclusion of the JTA standards requirements in acquisition planning documents and did not improve the rate of inclusion of JTA standards requirements in contracts. The CAEs and PEOs were more positive than the program managers concerning the impact of the JTA on program execution. Sixty-two percent of responding CAEs and PEOs indicated that implementing JTA standards was a benefit in program execution while only 22 percent of responding program managers indicated a benefit.

REPORT NO. D-2001-178. Summary of DoD Acquisition Program Audit Coverage. This report will provide the DoD audit community with information to support their planning efforts and provide management with information on the extent of audit coverage of DoD acquisition programs. The objective of the review was to summarize the audit coverage for acquisition programs in category levels I through IV. We excluded information technology systems unless they were combat related.

Fifty-eight reports on acquisition programs in category levels I through IV were issued from October 1, 1999, to March 31, 2001. Nineteen of the reports issued were from GAO; 22 of the reports were from OIG, DoD, of which 6 were classified; and 17 of the reports were



from Military Department audit agencies. The reports addressed at least 129 acquisition programs in category levels I through IV out of the 1,308 programs. A review of the 52 unclassified reports disclosed the following systemic issues: Acquisition strategy (9 reports), Affordability/cost (10 reports), Establishment of program goals/exit criteria (5 reports), Managing hazardous materials in programs (5 reports), Open systems approach (1 report), Requirements (5 reports), Test and evaluation (9 reports), and Total ownership/life-cycle cost (5 reports). Additional problems were identified in the areas of analysis of alternatives; high-level architecture; and the correct acquisition categorization. The six classified reports addressed protection of programs against radio frequency weapons.

Independent internal audits should be used more extensively as an integral component of management controls by the acquisition program. The limited number of audit reports issued on weapon acquisition issues during the 18-month period covered by this survey belies the often-heard assertion that acquisition programs are overaudited. It is particularly telling that only 14 of the 906 ACAT I through III programs (2 percent) were addressed by comprehensive audit reports that reflected evaluation of all significant program aspects.

### **CONTRACTING OVERSIGHT**

REPORT NO. D-2001-171. Industrial Prime Vendor Program at the Naval Aviation Depot – Cherry Point. This report is one in a series involving the pricing of commercial and noncommercial spare parts and other logistics support initiatives. The primary objective was to determine whether the Defense Supply Center Philadelphia industrial prime vendor program (Program) had demonstrated an effective shift to commercial, industrial-base resources as an integrated logistics solution to obtain bench-stock material and add value for its customers.

The Program had not placed sufficient bench-stock material on contract to demonstrate an effective shift to commercial, industrial-base resources as an integrated logistics solution to support Cherry Point. As a result, Raytheon was primarily relying on the Defense supply system for the bench-stock material used to support the program at Cherry Point. In fact, 82 percent (dollars) and 84 percent (line items) of material supplied by Raytheon came from the Defense supply system. In short, Raytheon was effectively managing bench-stock material but was unable to obtain more than 16 percent of the material from sources other than DLA. Although the Program provided additional resources to manage bench-stock material at Cherry Point and improve parts availability, the program will not become cost effective unless Raytheon can place sufficient material on contract at economical prices. Raytheon also erroneously charged Cherry Point for material on the contract. We calculated that Cherry Point was overcharged by \$666,883 because of problems with unpriced items, units of issue, and contract oversight. Raytheon refunded \$337,893 to Cherry Point on June 1, 2000. Similar conditions were reported at North Island in Report No. D-2001-072.

REPORT NO. D-2001-188. Revised DoD Progress Payment Practices. The objective was to determine whether the revised 1998 DoD Progress Payment policy was adequately implemented. We expanded our review to determine whether contracting officers were providing payment instructions required by Defense Federal Acquisition Regulation (DFAR) Supplement 204.7107.

The progress payment policy established by USD(C) in August 1998 and the DFAR Supplement policy for payment instructions were not adequately implemented for 82 fixed-price contracts with multiple appropriations. Specifically, for six of the nine contracts that met the Comptroller criteria for payment instructions, DCMA administrative contracting officers did not provide payment instructions to DFAS. In addition, for 76 of 138 contracts that met the DFAR Supplement criteria for payment instructions, contracting officers did not include the required instructions. As a result, for the 82 fixed price contracts with estimated total progress payments of \$915.6 million, progress payments will not be distributed to appropriations based on the best estimates of the specific work being performed under the contract using available information. DFAS did not follow the payment instructions on 20 of 63 progress payments on the 7 contracts with payment instructions provided by contracting officers. As a result, approximately \$39.7 million in progress payment disbursements related to the seven contracts were either inappropriately prorated from multiple appropriations or paid using a different payment methodology from those specifically directed by contracting officers. Replacing MOCAS with the Defense Procurement Payment System over the next several years will not eliminate the problem because manual payments by DFAS will still be needed to pay according to the instructions provided.

REPORT NO. D-2001-189. Multiple Award Contracts for Services. The audit was initiated to follow-up on actions taken by USD(AT&L) in response to Audit Report No. 99-116, "DoD Use of Multiple Award Task Order Contracts." During that audit, we identified 66 of 124 task orders issued on a sole-source basis without providing contractors a fair opportunity to be considered. To determine the severity of the problem and the progress being made, USD(AT&L) requested each Military Department to identify 10 multiple award task order situations and provide specific information on each multiple award situation on a semiannual basis for 1 year ending June 30, 2000. The specific objective was to review the multiple award contract data collected by USD(AT&L) from the Military Departments and assess the progress being made in providing contractors a fair opportunity to be considered.

Contracting organizations continued to direct awards to selected sources without providing all multiple award contractors a fair opportunity to be considered. We found that 304 of 423 task orders (72 percent) were awarded on a sole-source or directed-source basis of which 264 were improperly supported. As a result, DoD was not obtaining the benefits of sustained competition and the reduced costs envisioned when Congress provided the authority for multiple award contracts. Only 119 of 423 task orders were competed and 82 of these orders received multiple bids.

## **FINANCE AND ACCOUNTING**

REPORT NO. D-2001-153. Pentagon Reservation Maintenance Revolving Fund. Our objective was to determine whether the Pentagon Reservation Maintenance Revolving Fund had properly recorded and reported the costs associated with recent construction projects at the Pentagon Reservation, which includes the Pentagon, the Navy Annex, and other buildings. We also reviewed procedures and documentation used for the cost projection reported to Congress and the management controls associated with maintaining financial databases.

For financial statement purposes, Washington Headquarters Service did not accurately record or report the construction costs resulting from the renovation of the Pentagon Reservation. At least \$50.1 million of overhead costs associated with the renovation were not included in the construction in progress account. Completed projects dating back to 1992 were not transferred from construction in progress to the real property accounts, resulting in a misstatement of at least \$210.3 million. Other errors in the real property accounts included not removing a \$12.1 million deletion of the old heating and refrigeration plant and using incorrect methods to calculate depreciation. As a result, the FY 2000 Pentagon Reservation Maintenance Revolving Fund balance was misstated by at least \$289.6 million. The annual "Status Report to Congress on the Renovation of the Pentagon" did meet the legislative reporting requirements. However, the FY 2000 Status Report could have more clearly stated that the program management office reduced the scope of the renovation by roughly \$564.8 million. The FY 2000 Status Report to Congress only briefly mentions the challenging financial aspects of the major construction and renovation work conducted on the Pentagon Reservation. A more complete reporting of the projects and costs in the Status Report to Congress should help readers appreciate the difficulties facing the program management office under the current spending limit.

REPORT NO. D-2001-154. Beneficiary Data Supporting the DoD Military Retirement Health Benefits Liability Estimate. The objective was to assess the reliability and completeness of the demographic data used to calculate the DoD military retirement health benefits liability.

Defense Enrollment Eligibility Reporting System (DEERS) data provided to the Actuary, DoD, were reliable 85 percent of the time; however, improvements were needed. We statistically projected that 1.3 million beneficiaries (15 percent) of 8.4 million beneficiaries in the demographic data extract used to calculate the military retirement health benefit liability were either ineligible, unable to be verified, or had incorrect critical data in their DEERS records. Specifically, the DEERS data extract used to estimate the FY 2000 unfunded military retirement health benefits liability included an estimated: 189,000 ineligible beneficiaries, 841,000 beneficiaries whose existence or eligibility was unable to be verified, and 226,000 beneficiary records with incorrect critical data.

In addition, ineligible persons have received DoD medical care pharmaceuticals and exchange services, and could have access to commissary and other benefits. Some of the

estimated 841,000 unverified beneficiaries may also be ineligible for benefits. Furthermore, the risk of unauthorized access to DoD facilities and services is increased because unauthorized beneficiaries were issued identification cards.

REPORT NO. D-2001-155. Compilation of the FY 2000 Navy Working Capital Fund Financial Statements. The overall objective was to determine the reliability and effectiveness of processes and procedures used to compile and prepare the FY 2000 Navy Working Capital Fund (WCF) Financial Statements. We reviewed DFAS Cleveland processes for consolidating and summarizing financial data from Navy WCF field organizations. We also reviewed DFAS Cleveland processes and procedures for recording journal vouchers to adjust accounting data provided by Navy WCF field organizations, DFAS accounting offices and other sources. In addition, we reviewed compliance with laws and regulations as they related to the audit objective.

DFAS Cleveland and Kansas City recorded 974 departmental-level journal vouchers, valued at \$947.3 billion, that affected the Statements. Review of 658 journal vouchers showed that 432 journal vouchers, valued at \$885.9 billion, were supported or proper. A prior report addressed 95 of 151 journal vouchers, valued at \$28.8 billion, related to intragovernmental transactions that were not adequately supported. Of the remaining 507 journal vouchers reviewed, 70 journal vouchers, valued at \$19.4 billion were unsupported. Also 61 journal vouchers, valued at \$10.7 billion were out of balance because of interface and incompatibility problems with feeder systems. As a result, we could not rely on data created by unsupported journal vouchers and DFAS personnel were required to adjust data unnecessarily to enter data from legacy accounting feeder systems. Recording unsupported journal vouchers adversely affected the reliability of the Statements.

DFAS Cleveland did not adequately document the audit trail from the ending trial balance in the Central Data Base to the opening trial balance in the Defense Departmental Reporting System. Adjustments of \$5.9 billion were made for financial reporting purposes. The adjustments were not sufficiently documented to permit tracing amounts from the source data within the Central Data Base to amounts reported on the financial statements by the Defense Departmental Reporting System. As a result, the inadequately documented transition made it difficult to verify that the calculations were consistently made.

REPORT NO. D-2001-156. Air Force FY 2000 Financial Reporting of Operating Materials and Supplies. The overall objective was to obtain information on the financial reporting of operating materials and supplies and to determine the appropriateness of policies and regulations governing accounting for operating materials and supplies. We focused this part of the audit on the FY 2000 Air Force financial statement disclosure of operating materials and supplies. We did not assess the internal control structure because the Air Force reported in its prior and FY 2000 financial statements that it lacked the systems and procedures to adequately report operating materials and supplies.

The Air Force reported, but qualified, the appropriateness of \$19.6 billion of operating materials and supplies on the FY 2000 General Fund financial statements. The Air Force stated that it was unable to implement all elements of the Statement of Federal Financial

Accounting Standards because of limitations of its financial management processes and systems, including nonfinancial feeder systems. In addition to the systems problems, the Air Force General Fund financial statements contained inaccurate and improper disclosures of about \$1.75 billion in operating materials and supplies.

REPORT NO. D-2001-158. Compilation of the FY 2000 Army General Fund Financial Statements at the Defense Finance and Accounting Service Indianapolis (Sustaining Forces). This is the second in a series of reports issued by IG, DoD, related to the FY 2000 Army General Fund Financial Statements. The objective was to determine whether DFAS Indianapolis consistently and accurately compiled financial data from field organizations and other sources for the Statements.

DFAS Indianapolis compilation of financial data from field entities and other sources into the Statements was not in compliance with the Federal Financial Management Improvement Act of 1996. DFAS Indianapolis processed 459 accounting entries valued at \$464.9 billion to compile the Statements. Of this amount, \$361.5 billion represented 240 unsupported and improper entries. The 240 unsupported or improper accounting entries included 143 accounting entries, valued at \$307.8 billion, that were made to correct discrepancies between accounting data. As a result, the Statements continued to contain material amounts of unsupported accounting data.

DFAS Indianapolis could not determine the actual balances of the Army General Fund suspense accounts. As of September 30, 2000, the suspense account balances reported by Treasury exceeded the suspense account balances reported by the Army General Fund accounting stations by \$233 million. As a result, suspense account balances were a material uncertainty affecting the amount reported for the Fund Balance With Treasury for the Army General Fund.

REPORT NO. D-2001-159. Promptness and Completeness of FY 2001 Fourth Quarter DoD Payments to the U.S. Treasury for Water and Sewer Services Provided by the District of Columbia. This is the third in a series of quarterly reports and discusses the promptness and completeness of DoD payments for water and sewer services provided by the District of Columbia for the fourth quarter of FY 2001. This report also addresses the status of DoD Components' bills and payments from FYs 1992 through 2001. The audit was required by Public Law 106-554, the Consolidated Appropriations Act of 2001.

DoD Components' payments for water and sewer services received from the District of Columbia Water and Sewer Authority were prompt and generally complete for the fourth quarter of FY 2001. For the period of FYs 1992 through 2001, DoD Components paid 82 percent of water and sewer bills because: DoD Components did not agree with the U.S. Treasury's estimated water and sewer bills and had not paid disputed amounts; the U.S. Treasury did not provide allocated water and sewer bills to DoD users of the Federally Owned Water Main until June 2001, and prior to June 2001, DoD users generally paid what they considered to be their "fair share;" and the Water and Sewer Authority did not have an effective process for ensuring that individual users of the Federally Owned Water Main were charged for actual usage. However, as of June 27, 2001, DoD Components paid or the U.S.



Treasury withdrew the remaining 18 percent, or \$18.4 million, based on the U.S. Treasury's authority under Public Law 106-554 to withdraw appropriations for prior year outstanding bills.

REPORT NO. D-2001-160. Accounting for Economy Act Orders by the Navy Working Capital Fund Organizations. Our objective was to determine whether the accounts payable line of the DoD Agency-Wide financial statements was prepared in accordance with OMB Bulletin No. 97-01, "Form and Content of Agency Financial Statements." We also examined internal controls and compliance with applicable laws and regulations. Specifically, we reviewed DoD agency and Military Department compliance with laws and regulations related to the working capital fund (WCF), acceptance of Economy Act orders, and accounting and reporting requirements.

During FY 2000, the Space and Warfare Systems Command Research, Development, Test and Evaluation Centers and the Naval Air Warfare Center, Weapons Division (WCF activities), accepted Economy Act orders from customers that directly cited their appropriations instead of placing the orders on a reimbursable basis. That practice was not observed in our audit of WCF activities in the Army and the Air Force. According to the Office of Accounting Policy, Office of the Under Secretary of Defense (Comptroller), the Navy practice was not in accordance with the intent of the DoD Financial Management Regulation, volume 11A, Reimbursable Operations, Policy and Procedures - Working Capital Funds. As a result, Economy Act orders using directly cited funds were not accounted for and reported in the Navy WCF financial statements creating a \$1.15 billion material misstatement of the program cost and work performed by the Navy WCF organizations.

REPORT NO. D-2001-161. Unliquidated Obligations for Air Force-Funded Projects Administered by the Naval Facilities Engineering Command. The objective was to determine whether obligated balances and related disbursements for Air Force-funded projects administered by the Naval Facilities Engineering Command were fairly presented in the FY 2000 Statement of Budgetary Resources for the Air Force General Fund. Specifically, we determined whether unliquidated obligation balances were valid; and whether obligations and disbursements were recorded timely, accurately, and properly approved and supported in accordance with DoD guidance.

The FY 2000 Air Force General Fund Financial Statements included \$185.6 million in unliquidated obligations for Air Force-funded construction projects administered by Naval Facilities Engineering Command. Review of 13 funding authorizations involving \$50.1 million of the \$185.6 million showed that undelivered orders and accrued expenditures unpaid, shown in the Standard Accounting and Reporting System - Field Level (STARS-FL), were understated by \$2.7 million, and disbursements were understated by \$8.1 million. The understatements occurred because of interface problems between STARS-FL and the Facilities Information System used by the Navy. In addition, Navy field organizations did not complete required triannual reviews of unliquidated obligations. As a result, information in STARS-FL was not reliable for either management purposes or financial reporting, and the FY 2000 Air Force General Fund Financial Statements contained errors. Although our review was limited to the Air Force funds administered by the Naval Facilities Engineering Command, the

problems identified are symptomatic of a much larger problem because the interface problems impacted accounting for all design and construction projects administered by the Naval Facilities Engineering Command. The FY 2000 Navy General Fund Financial Statements included \$1.1 billion in unliquidated obligations from construction related appropriations.

REPORT NO. D-2001-162. Accounting Entries Made in Compiling the FY 2000 Air Force General Funds Financial Statements. The original objective was to determine whether DFAS Denver consistently and accurately compiled financial data from field activities and other sources in preparing the FY 2000 Air Force General Funds Financial Statements. However, the objective was revised to determine whether the accounting entries made by DFAS Denver were adequately supported and complied with generally accepted accounting principles. We also reviewed applicable internal controls and compliance with laws and regulations.

Additional improvements in the accounting entries made in compiling the Statements are required to adequately support and comply with generally accepted accounting principles. DFAS Denver made accounting entries for \$406 billion in preparing the Statements. Of that \$406 billion, \$317.4 billion were unsupported and \$3 billion were improper. Furthermore, \$304 billion of the accounting entries were not properly approved before being entered into the automated systems. DFAS Denver made progress in significantly reducing the dollar volume of accounting entries made in two automated systems in preparing those financial statements. However, the problem with unsupported and improper accounting entries remains and affects the accuracy and reliability of the Air Force General Funds financial statements.

REPORT NO. D-2001-163. Accounting Entries Made in Compiling the FY 2000 Financial Statements for the Working Capital Funds of the Air Force and Other Defense Organizations. The objective was to determine whether the accounting entries made by DFAS Denver in compiling those FY 2000 financial statements were adequately supported and complied with generally accepted accounting principles. We also reviewed applicable internal controls and compliance with laws and regulations.

In compiling the Air Force WCF financial statements, DFAS Denver made \$105 billion in accounting entries. Of that amount, entries for \$32 billion were unsupported and \$4.3 billion were improper. Similarly, in compiling the financial statements for the WCFs of USTRANSCOM, DSS, and the Joint Logistics Systems Center, DFAS Denver made \$22.7 billion in accounting entries. Of that amount, entries for \$10 billion were unsupported. DFAS Denver made progress in reducing the volume of and improving the support for accounting entries. However, the problem with unsupported and improper accounting entries remains and affects the accuracy and reliability of the financial statements prepared for the WCFs of the Air Force and other Defense organizations.

REPORT NO. D-2001-165. Defense Departmental Reporting System-Audited Financial Statements. Our overall objective was to determine whether the FY 2000 DoD Agency-Wide Financial Statements were presented fairly in accordance with OMB Bulletin No. 97-01, "Form and Content of Agency Financial Statements." The specific objective was to determine whether the internal controls of the Audited Financial Statements module of the Defense Departmental Reporting System used to compile the DoD Financial Statements were adequate.

DFAS made uncontrolled or unnecessary adjusting accounting entries when compiling the DoD financial statements for FY 2000. DFAS made \$219 billion in undocumented changes to the trial balance data before the data were imported into the Audited Financial Statements module. DFAS also processed 172 accounting entries valued at about \$203 billion without the appropriate levels of supervisory review. In addition, DFAS made accounting entries valued at \$224.7 billion to correct crosswalk deficiencies. As a result, the FY 2000 DoD Agency-Wide Financial Statements contained unreliable financial data.

REPORT NO. D-200-169. United States Special Operations Command's Reporting of Real and Personal Property Assets on the FY 2000 DoD Agency-Wide Financial Statements. Our overall objective was to determine the accuracy of the unified combatant commands' reporting of real and personal property on the FY 2000 DoD Agency-Wide Financial Statements. This report focuses solely on the U.S. Special Operations Command (USSOCOM). Our specific objective was to determine the accuracy of the USSOCOM reporting of real and personal property on the Statements.

USSOCOM did not accurately report the value of its real property in the supporting data that should be used to prepare the Statements. As a result, USSOCOM understated the amount of the real property that it occupied by approximately \$1.2 billion. USSOCOM did not accurately report the value of its personal property in its supporting data for the Statements. In addition, DFAS Indianapolis did not use the personal property data that USSOCOM reported. As a result, USSOCOM and DFAS Indianapolis understated the amount of personal property on the Statements by approximately \$79 million. On December 6, 2000, DoD established the PP&E Program Management Office to coordinate and oversee DoD efforts to resolve existing PP&E accountability, accounting, and reporting problems. This office is composed of personnel from the Office of the Under Secretary of Defense (Acquisition, Technology, and Logistics) and the Under Secretary of Defense (Comptroller). Because of the Property, Plant, and Equipment Program Management Office's efforts to change the preponderant use policy, we are not making recommendations on real property reporting for USSOCOM.

REPORT NO. D-2001-170. U.S. Transportation Command's Reporting of Property, Plant, and Equipment Assets on the FY 2000 DoD Agency-Wide Financial Statements. Our objective was to determine the accuracy of the U.S. Transportation Command (USTRANSCOM) reporting of property, plant, and equipment (PP&E) (real and personal property) assets on the FY 2000 DoD Agency-Wide Financial Statements. We reviewed the operating procedures and documentation used to support the FY 2000 DoD Agency-Wide Financial Statements. In addition, we assessed compliance with laws and regulations.

Although problems with USTRANSCOM reporting of PP&E were reported previously, the Command had not developed an adequate strategy to fix the problems and did not report the problems as a material weakness on its Annual Statement of Assurance to the Office of the Secretary of Defense and Congress. Headquarters, TRANSCOM, and the Air Mobility Command could not support the amounts included in the FY 2000 DoD Agency-Wide Financial Statements for PP&E. For Headquarters, TRANSCOM, we could not verify \$535.1 million of assets or the \$216.4 million of accumulated depreciation (net of



\$318.7 million) for those assets. Similarly, for the Air Mobility Command we could not verify the \$1,527.6 million of assets or the \$837.9 million of accumulated depreciation (net of \$689.7 million) for those assets.

REPORT NO. D-2001-172. Data Supporting the Environmental Liability Reported on the FY 2000 Financial Statements. The objective was to evaluate the reliability and completeness of the data used to calculate the DoD environmental liability for FY 2000. This audit focused on the accrued environmental restoration costs. We also reviewed the adequacy of the internal control program as it applied to the audit objective.

The \$63.2 billion reported in the FY 2000 DoD Agency-Wide Financial Statements for environmental liabilities was inadequately supported and incomplete. Specifically, the cost-to-complete estimates of \$23.4 billion that support environmental restoration liabilities were not adequately documented and the \$14 billion accrued environmental restoration liability for training ranges was not based on a complete training range inventory. As a result, the environmental liability line item in the Statements was unverifiable, unreliable, and understated. The environmental liabilities reported in the statements will continue to be incomplete and misstated until DoD completes standard policy guidance for reporting of training ranges and recognizes all associated liabilities and the Military Departments fully implement applicable guidance in estimating their environmental liabilities. DoD is aware of and working on amending guidance for identifying and reporting information for the Defense Environmental Restoration Program, which is used to support environmental liabilities on the financial statements.

REPORT NO. D-2001-174. FY 2000 DoD Superfund Financial Transactions. Annual audits of DoD Superfund financial transactions are required by section 9611(k) title 42, U.S.C. The overall objective was to determine whether the Corps properly administered its portion of the Superfund. The specific objective was to determine whether the Corps supported and accurately recorded obligation and disbursement transactions charged to Superfund projects during FY 2000.

We audited 12 of the 44 Corps organizations that used the Corps of Engineers Financial Management System to record Superfund financial transactions. The statistical projections indicate that the Superfund financial transactions, valued at \$597.3 million, had a maximum net misstatement less than \$1,677,541.00 (0.2809) of the total value recorded and was not material. Those transactions were processed through the Corps of Engineers. The small number of discrepancies did not indicate a systemic control weakness or materially affect our conclusions that the Corps properly administered its portion of the Superfund. The 1980 statutory requirement for this annual audit of all Superfund financial transactions should be amended. The need for the annual audit in DoD is questionable because the audits determined that the Superfund financial transactions were: 99.8 percent accurate in FY 1998, 99.9 percent accurate in FY 1999, and 99.7 percent accurate in FY 2000.

The annual required audit of the Superfund also overlaps with requirements of the CFO Act of 1990 and causes an unnecessary use of audit resources. We proposed a legislative change in December 1999 to delete the annual audit requirement of the Superfund in the

Comprehensive Environmental Response, Compensation, and Liability Act. However, the Environmental Protection Agency (EPA) objected to changes to the Comprehensive Environmental Response, Compensation, and Liability Act, and the legislative proposal was not sent from the Office of Management and Budget to Congress. The legislative proposal about the annual audit requirement was revised to address the EPA concerns and was resubmitted to DoD in October of 2000. The EPA did not object to the revised legislative proposal. It was submitted to Congress in August 2001, and it was received too late to be included in FY 2002 legislative changes.

REPORT NO. D-2001-177. Compilation of the FY 2000 Army Working Capital Fund Financial Statements. This is the second in a series of reports relating to the audit of the FY 2000 Army Working Capital Fund (WCF) Financial Statements. Our overall objective was to determine whether DFAS Indianapolis consistently and accurately compiled financial data from field organizations and other sources for the Statements.

DFAS Indianapolis improved the support for the adjusting accounting entries for the Statements. However, about \$44 billion of the \$212.2 billion in adjusting accounting entries were not adequately supported and 76 adjusting accounting entries, valued at \$152.8 billion, were not promptly approved. The WCF Branch made \$25.3 billion in adjusting accounting entries to the Accounting Report 1307 database without adequate support or audit trails. The year-end Accounting Report 1307 database was used as the beginning general ledger database file for the financial statements. WCF Branch personnel were able to provide additional supporting documentation for \$24.9 billion of the \$25.3 billion adjusting accounting entries, but not until as much as 36 workdays after the 5 workday grace period. Thirty-five adjusting accounting entries, valued at \$110.7 billion, were not approved before the Accounting Report 1307 was provided to the Army for certification and the Statements began to be compiled. The Army/DoD Audited Financial Statements Branch did not adequately support \$18.7 billion in adjusting accounting entries made to the general ledger database file. Further, 41 adjusting accounting entries, valued at \$42.1 billion, were not approved timely. As a result, the Statements were likely materially misstated.

REPORT NO. D-2001-180. Financial Information Compiled by DoD Field Accounting Sites. This is the fifth and final in a series of reports related to the FY 2000 DoD Agency-Wide Financial Statements. Our overall objective was to determine whether the Statements were prepared in accordance with OMB Bulletin No. 97-01, "Form and Content of Agency Financial Statements." As part of the objective, we were to determine whether DoD field accounting sites compiled and submitted accurate and reliable financial information to DFAS central accounting sites. Central accounting sites were formerly known as departmental accounting at DFAS Centers. We also evaluated the adequacy of internal controls that were in place and operating during the preparation of the financial information.

Field accounting sites at 10 of 13 locations made accounting entries totaling about \$19.5 billion that were not supported and reported accounting information with about \$0.5 billion in abnormal balances. For example, DFAS Omaha made unsupported accounting entries totaling about \$11.6 billion to U.S. Transportation Command Working Capital Fund

records. Also, the Defense Agency Financial Services Office reported \$233.8 million (net) in abnormal balances for the Other Defense Organizations General Fund. As a result, the central accounting sites received unreliable data to prepare the Statements.

REPORT NO. D-2001-181. Compilation of the FY 2000 DoD Agency-Wide Financial Statements. This report is the fourth in a series of audit reports relating to the audit of the FY 2000 DoD Agency-Wide Financial Statements. Our overall objective was to determine whether the FY 2000 DoD Agency-Wide Financial Statements were prepared in accordance with OMB Bulletin No. 97-01, "Form and Content of Agency Financial Statements," and generally accepted accounting principles. As part of the objective, we determined whether DFAS consistently and accurately compiled financial data received from field organizations and other sources for the DoD Agency-Wide financial statements. An additional objective was to identify any exceptions to the Department's compliance with the U.S. Treasury Financial Manual and completion of the Account Groupings Worksheet, and to identify any differences between the Summarized Federal Agencies' Centralized Trial-Balance System I Data and the audited FY 2000 DoD Agency-Wide Financial Statements.

DFAS processed approximately \$4.4 trillion in department-level accounting entries to DoD Component financial data used to prepare departmental reports and DoD financial statements for FY 2000. Of the \$4.4 trillion entries, \$2.8 trillion were supported with proper research, reconciliation, and audit trails. However, entries of \$1.1 trillion were unsupported or improper. We did not review another \$477.1 billion in entries. The DoD Agency-Wide financial statements for FY 2000 were subject to a high risk of material misstatement. The magnitude of entries required to compile the DoD financial statements for FY 2000 highlights the difficulties and problems that DoD encountered in attempting to produce accurate and reliable financial information using existing systems and processes. DoD FY 2000 Federal Agencies' Centralized Trial-Balance System I that electronically documents the Department's financial statement submissions to the Department of the Treasury was incomplete and late. Specifically, DoD did not complete the worksheets required by U.S. Treasury guidance. As a result, DoD missed 2 of 3 U.S. Treasury deadlines and was 4 days late for the final submission. Further, we were unable to verify the \$137.5 billion in Commitments and Contingencies reported on the Federal Agencies' Centralized Trial-Balance System data to the published FY 2000 DoD Agency-Wide Financial Statements, footnotes and other supporting data. These problems negatively impacted the process for preparing and auditing the FY 2000 Government-Wide Financial Statements.

REPORT NO. D-2001-185. FY 2000 U.S. Army Corps of Engineers Obligations for DoD Component Contracts. We conducted this audit in response to a request from the Air Force Audit Agency. The objective was to determine whether the Corps of Engineers obligations and related disbursements of DoD Component funds, specifically Air Force, were properly approved, supported, and validated.

Air Force obligations with the Corps were generally valid. Our focused review of unliquidated obligations for FY 1998 through FY 2000, which constituted 99 percent of the Corps' available Air Force resources, showed that 96 percent of the obligations and 95 percent

of the disbursements reviewed were supported by source documentation. However, the Corps did not always maintain required audit trails to support triannual reviews and obligations were overstated by \$991,942.

### **INFORMATION TECHNOLOGY RESOURCES**

REPORT NO. D-2001-166. Defense Joint Military Pay System Security Functions at Defense Finance and Accounting Service Denver. Our objective was to determine whether adequate corrective actions were taken in response to prior audits of Defense Joint Military Pay System (DJMS) security functions performed at DFAS Denver and evaluate related security controls. Specifically, we determined whether management adequately responded to recommendations made in IG, DoD, Reports No. 97-203 and 96-175 related to system security functions performed at Denver, Colorado.

Many positive steps were taken by management to implement prior audit recommendations and otherwise improve the security posture of the payroll system. For example, the payroll system manager established a more independent security structure over the payroll system and quickly corrected many of the security weaknesses identified by this audit. However, additional improvements are required in the system's security to fully implement prior audit recommendations and correct additional problems identified. The following repeat findings were identified: information system security officers did not have the level of authority to effectively control security over the military payroll application; inadequate controls existed over user access to sensitive profiles, owned transactions, datasets, and Customer Information Control System regions; and requirements for critical-sensitive ratings for personnel given access to payroll system resources were not met. In addition, we identified two previously unreported security problems: access to critical-sensitive DJMS resources was not properly documented or controlled and information system security officers for the payroll system's Air Force-unique resources did not adequately monitor inactive user identifications. As a result, DFAS did not have adequate safeguards to limit the risks of potential erroneous payments and unauthorized changes to pay data and system resources. Although no fraud or abuse was detected, management identified and corrected more than \$152,000 in erroneous payments made in one instance because of improper system access and the lack of separation between conflicting duties.

REPORT NO. D-2001-175. Application of Year 2000 Lessons Learned. Our objective was to assess how widely and successfully DoD had applied the lessons learned from the year 2000 conversion experience to other information technology programs and management issues.

Since the year 2000 rollover, many DoD Components adapted management experiences gained from the year 2000 conversion and reused and updated data compiled during those efforts, such as system inventories, thin-lines, contingency plans, and configuration management. The reuse of data and adaptation of management experiences were largely driven

by individual actions within the DoD Components and not by the DoD Chief Information Officer (CIO). As a result, the DoD Components initiated and took commendable but varied steps to use year 2000 lessons learned in managing their information technology systems, whereas the DoD CIO missed opportunities to readily lead the way in managing information assurance and information technology investments. The DoD CIO had not readily adapted year 2000 experiences to managing information assurance and information technology investments. As a result, the task of responding to congressional and OMB requirements for ensuring that systems and networks are reasonably secure, particularly with respect to the Government Information Security Reform requirements, and for complying with the Clinger-Cohen Act, has been made even more difficult.

## **LOGISTICS**

REPORT NO. D-2001-186. Accountability and Control of Materiel at the Tobyhanna Army Depot – Stockage of Communications-Electronics Materiel. This is the second in a series of reports being issued by IG, DoD, that discusses accountability and control of materiel at DoD maintenance depots. Our overall audit objective was to evaluate the effectiveness of policies and procedures used to account for and control materiel that was used by the Tobyhanna Army Depot (Tobyhanna) located at Tobyhanna, Pennsylvania. This audit addresses the accountability and control of the large volume of materiel shipped to Tobyhanna from the Sacramento Air Logistics Center at McClellan Air Force Base, California (Sacramento), because of the 1995 Base Realignment and Closure.

Between FY 1998 and FY 2001, Tobyhanna received communications-electronics materiel that was transferred from Sacramento. Tobyhanna stored 590 pallets of the materiel, for which the content and condition was unknown, in the Automated Storage and Retrieval System. Further, Tobyhanna did not know the value of the materiel when received, and did not record the materiel on accountable records. We estimated the value of the Sacramento materiel stored in the Automated Storage and Retrieval System at Tobyhanna to be \$12.9 million. As a result, because the pallets have not yet been inventoried, the content and condition of the materiel continues to remain unknown and materiel with an estimated value of \$12.9 million continues to remain unrecorded and unpriced on accountable records. Further, Tobyhanna is storing materiel that may be serviceable but not used because new materiel is being procured.

## **OTHER**

REPORT NO. D-2001-157. Global Command and Control System – Meteorological and Oceanographic Application. This is one in a series of audits evaluating the effectiveness and efficiency of DoD meteorological and oceanographic support provided by the Military Departments to DoD and other governmental agencies. This audit focused on evaluating the ability of the Global Command and Control System (GCCS) meteorological and oceanographic application to meet warfighting operational requirements. In addition, we reviewed the integration of the meteorological and oceanographic application into the GCCS common operational picture.

The DoD user community did not use the joint meteorological and oceanographic application on GCCS. Only 5 of 3,385 GCCS workstations had downloaded the joint meteorological and oceanographic application. As a result, DoD can demonstrate only limited progress in accomplishing its objective to blend meteorological and oceanographic information into mission planning and execution using GCCS. In addition, DoD has expended considerable resources on meetings, working groups, studies, analyses, and field tests in an unsuccessful effort to implement a single joint meteorological and oceanographic application, although we were unable to quantify the costs.

REPORT NO. D-2001-179. Military Aircraft Accident Investigation and Reporting. This evaluation was initiated in response to a request from the Deputy Under Secretary of Defense (Environmental Security), to conduct a process review of the Military Service's implementation of DoD policy as stated in DoD Instruction 6055.7, "Mishap Investigation, Reporting, and Recordkeeping." Our overall objective was to determine whether the Services implemented DoD policy for aircraft mishap investigations and reporting. Specifically, we evaluated: the independence of mishap investigation boards, the root cause identification process, the timeliness and factual accuracy of investigation reports, mishap recordkeeping, and the process for tracking corrective actions. The evaluation was a process review and did not verify the implementation of appropriate corrective actions.

The Military Departments implemented the requirements in DoD Instruction 6055.7 through their respective regulations and instructions. Each Military Department's aircraft mishap investigation board was independent and identified root causes in its mishap reports, which were timely. The Military Departments generally implemented DoD policy for aircraft mishap investigations, reports, and recordkeeping effectively, but one issue merits management attention. Although the Army and the Air Force processes for tracking the status of open corrective actions were adequate, the Navy process was not effective. Consequently, the corrective actions data in the Navy Safety Information Management System were unreliable. Also, the Naval Safety Center was unable to meet the strategic mission for making safety information easily accessible to all Navy personnel and to efficiently report corrective action performance.



## **PART II**

### **PARTICIPATION ON MANAGEMENT ADVISORY TEAMS AND SPECIAL AUDIT/EVALUATION EFFORTS**

#### **Summary of the Office of Assistant Inspector General-Audit Participation on Management Advisory Teams**

(Area Code 703 unless otherwise indicated)

Accounting and Auditing Policy Committee (PAUL GRANETTO, 604-9101)

*Lead Component: Office of Management and Budget*

Acquisition Deskbook Working Group (JOHN MELING, 604-9091)

*Lead Component: Under Secretary of Defense for Acquisition, Technology, and Logistics*

Acquisition Initiatives Senior Steering Group (TOM GIMBLE, 604-8903)

*Lead Component: Under Secretary of Defense for Acquisition, Technology, and Logistics*

Acquisition of Services IPT (DICK JOLLIFFE, 604-9202)

*Lead Component: Under Secretary of Defense for Acquisition, Technology, and Logistics*

Anti Terrorism Senior Steering Coordinating Committee (CMDR JOEL DYKES, 604-8860)

*Lead Component: ASD SOLIC JCS J-3*

Commercial Item Handbook Integrated Process Team (TERRY MCKINNEY, 604-9288)

*Lead Component: Deputy Under Secretary of Defense (Acquisition Reform)*

Coordination of Federal Accounting Standards Advisory Board and American Institute of  
Certified Public Accountants Guidance (PAUL GRANETTO, 604-9101)

*Lead Component: Under Secretary of Defense (Comptroller)*

Defense Chief Information Officer Executive Board (MARY UGONE, 604-9002)

*Lead Component: Assistant Secretary of Defense (Command, Control, Communications and  
Intelligence)*

**Defense Environmental Safety and Occupational Health Policy Board**

(BILL GALLAGHER, 604-9270)

*Lead Component: Under Secretary of Defense for Acquisition, Technology, and Logistics*

**Defense Working Capital Fund Policy Board (DAVE VINCENT, 604-9109)**

*Lead Component: Under Secretary of Defense (Comptroller)*

**DoD Electronic Business Fraud Vulnerability Assessment Group (KENT SHAW, 604-9228)**

*Lead Component: Defense Criminal Investigative Service*

**Environmental Security Technology Implementation Committee (BILL GALLAGHER, 604-9270)**

*Lead Component: Under Secretary of Defense for Acquisition, Technology, and Logistics*

**Federal Financial Management Act Executive Working Group (PAUL GRANETTO, 604-9101)**

*Lead Component: Under Secretary of Defense (Comptroller)*

**Government Information Security Reform Act Information Assurance IPT**

(WANDA SCOTT, 604-9049)

*Lead Component: Assistant Secretary of Defense (Command, Control, Communications and Intelligence)*

**Inherently Governmental Integrated Process Team, DoD A-76 Overarching Policy IPT**

(GERRY STEPHENSON, 604-9201)

*Lead Components: Under Secretary of Defense for Acquisition, Technology, and Logistics and  
Under Secretary of Defense for Personnel and Readiness*

**Joint Contracting Pilot Program (TILGHMAN SCHRADEN, 604-9186)**

*Lead Component: Navy Inventory Control Point*

**Past Performance Integrated Product Team (IPT) (BOBBIE SAU WAN, 604-9259)**

*Lead Component: Under Secretary of Defense for Acquisition, Technology, and Logistics*

**Rapid Improvement Team to Develop DLA/Hamilton Sundstrand Strategic Alliance  
Relationship (HENRY KLEINKNECHT, 604-9324)**

*Lead Components: Deputy Under Secretary of Defense(Acquisition Reform) and DLA*



Rapid Improvement Team to Develop a DLA/Honeywell Strategic Alliance Relationship  
(HENRY KLEINKNECHT, 604-9324)

*Lead Components: Deputy Under Secretary of Defense(Acquisition Reform) and DLA*

Reconciliation of Contracts in MOCAS Integrated Process Team (JIM KORNIDES, 614-751-1400(11))

*Lead Components: Under Secretary of Defense for Acquisition, Technology, and Logistics and  
Under Secretary of Defense (Comptroller)*

Reengineering Transportation Task Force Executive Committee: (SHEL YOUNG, 604-8866)

*Lead Component: Under Secretary of Defense for Acquisition, Technology, and Logistics*

Senior Financial Management Oversight Council (ROBERT LIEBERMAN, 604-8300)

*Lead Component: Under Secretary of Defense (Comptroller)*

Single Process Initiative Management Team (EUGENE KISSNER, 604-9323)

*Lead Component: Defense Contract Management Agency*

Systems Compliance Audit Working Group (CFO) (PAUL GRANETTO, 604-9101)

*Lead Component: Under Secretary of Defense (Comptroller)*

Task Force on International Agreements (DONALD BLOOMER, 604-8863)

*Lead Component: Assistant Secretary of Defense (International Security Affairs)*

Weapons of Mass Destruction – Civil Support Teams Certification Working Group  
(SHEL YOUNG, 604-8866)

*Lead Component: Deputy Assistant Secretary of Defense (Reserve Affairs)*

## **Summary of the Office of Assistant Inspector General-Audit Participation in Special Audit/Evaluation Efforts**

### **Audit Committees:**

- Ballistic Missile Defense Organization (DAVE VINCENT, 604-9109)
- Defense Advanced Research Projects Agency (LEON PEEK, 604-9587)
- Defense Commissary Agency (DAVE VINCENT, 604-9109)
- Defense Contract Audit Agency (PAUL GRANETTO, 604-9101)
- Defense Finance and Accounting Service (PAUL GRANETTO, 604-9101)
- Defense Information Systems Agency (RICHARD BIRD, 604-9102)
- Defense Logistics Agency (PAUL GRANETTO, 604-9101)
- Defense Security Service (BRIAN FLYNN, 604-9489)
- Defense Threat Reduction Agency (LEON PEEK, 604-9587)
- National Reconnaissance Office (LEON PEEK, 604-9587)
- Working Group for Air Force General Fund (BRIAN FLYNN, 604-9489)

Audit Oversight Workgroup Under the CFO Council Grants Management Committee  
(LAURA RAINEY, 604-8741)

Federal Audit Clearinghouse User Group (LAURA RAINEY, 604-8741)

### **Federal Audit Executive Council Multi-Agency Working Groups:**

- Electronic Business (KENT SHAW, 604-9228)
- Government Wide Financial Statements (RICHARD BIRD, 604-9102)
- Peer Review Guidance Update (DENNIS PAYNE, 604-8907)

### **Joint Audit Planning Groups:**

- Acquisition Program (MARY UGONE, 604-9002)
- Construction, and Installation Support (WAYNE MILLION, 604-9312)
- Contractor Oversight (RICHARD JOLLIFFE, 604-9202)
- Quality Assurance Planning Group (RICHARD JOLLIFFE, 604-9202)
- Purchase Card Planning Group (JOE DOYLE, 604-9349)
- Environment (RICHARD JOLLIFFE, 604-9202)
- Finance and Accounting (PAUL GRANETTO, 604-9101)
- Health Care and Morale (MIKE JOSEPH, 757-766-9108)
- Information Technology Resources (WANDA SCOTT, 604-9049)
- Intelligence (CHARLES SANTONI, 604-9051)
- Logistics (TILGHMAN SCHRADEN, 604-9186)

PCIE Information Technology Roundtable (KATHY TRUEX, 604-9139)  
IT Workforce Issues for IGs Working Group  
Information Assurance Working Group

Single Audit "Orange Book" Update Project Team (LAURA RAINEY, 604-8741)

## INTERNET DOCUMENT INFORMATION FORM

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